Asian Credit Daily

November 1, 2017

Credit Headlines (Page 2 onwards): BNP Paribas SA, Sembcorp Industries/ Sembcorp Marine, Lppo Malls Indonesia Retail Trust

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates trading 1-10bps lower across all tenors, following the bull-flattening of the US Treasuries curve on Monday. Flows in SGD corporates were heavy, with better buying seen in CELSP 3.9%-PERPs, WINGTA 4.35%-PERPs, SIASP 3.13%'27s, CAPLSP 3.08%'27s, better selling seen in HRAM 3.2%'21s, and mixed interest seen in STHSP 3.95%-PERPs. In the broader dollar space, the spread on JACI IG Corp fell 2bps to 176bps, while the yield on JACI HY Corp rose 3bps to 6.87%. 10Y UST yields rose 1bps to 2.38%, despite stronger-than-expected October Chicago PMI data.

New Issues: FCT MTN Pte Ltd has priced a SGD70mn 7-year bond (guaranteed by HSBC Institutional Trust Services Singapore Ltd in its capacity as trustee of Frasers Centrepoint Trust) at 2.77%, tightening from initial guidance of 2.95% area. The expected issue ratings are 'BBB+/NR/NR'. CNQC International Holdings Limited has priced a SGD100mn 3-year bond at 99.724 to yield 5%. Huarong Finance 2017 Co has priced a five-tranche deal (guaranteed by China Huarong International Holdings Ltd and supported with a keepwell and equity interest purchase undertaking by China Huarong Asset Management Co), with the USD500mn 5-year floating rate bond priced at 3mL+115bps, tightening from initial guidance of 3mL+155bps; the SGD400mn 8-year fixed rate bond priced at 3.80%, tightening from initial guidance of 4%; the USD1.1bn 10-year fixed rate bond priced at CT10+190bps, tightening from initial guidance of CT10+220bps; the USD700mn 30-year fixed rate bond priced at 4.95%, tightening from initial guidance of 5.25% area; and the USD700mn Perp NC5 priced at 4%, tightening from initial guidance of 4.3% area. The expected issue ratings for the straight bonds are 'NR/Baa1/A', while the expected issue ratings for the Perp are 'NR/Baa1/A-'. VIVAT NV has scheduled investor meetings for potential USD tier 2 Perp NC5 from 1 Nov. .

Table 1: Key Financial Indicators

	1-Nov	1W chg (bps)	1M chg (bps)		1-Nov	1W chg	1M chg
iTraxx Asiax IG	75	1	-7	Brent Crude Spot ($/bbl)	61.24	4.79%	6.43%
iTraxx SovX APAC	16	0	-3	Gold Spot ($/oz)	1,269.83	-0.60%	-0.10%
iTraxx Japan	48	0	2	CRB	187.56	0.93%	2.44%
iTraxx Australia	65	0	-6	GSCI	415.14	2.14%	3.97%
CDX NA IG	52	-2	-3	VIX	10.18	-8.78%	7.05%
CDX NA HY	108	0	0	CT10 (bp)	2.390%	-4.15	5.66
iTraxx Eur Main	50	-5	-6	USD Swap Spread 10Y (bp)	-3	-1	1
iTraxx Eur XO	225	-15	-25	USD Swap Spread 30Y (bp)	-29	0	3
iTraxx Eur Snr Fin	51	-6	-8	TED Spread (bp)	25	-1	-4
iTraxx Sovx WE	4	0	-1	US Libor-OIS Spread (bp)	10	-2	-4
iTraxx Sovx CEEMEA	43	1	3	Euro Libor-OIS Spread (bp)	3	0	0
					1-Nov	1W chg	1M chg
				AUD/USD	0.767	-0.51%	-2.07%
				USD/CHF	0.999	-0.93%	-2.43%
				EUR/USD	1.164	-1.51%	-0.84%
				USD/SGD	1.363	-0.16%	-0.09%
Korea 5Y CDS	72	1	-1	DJIA	23,377	-0.28%	4.34%
China 5Y CDS	51	1	-11	SPX	2,575	0.24%	2.22%
Malaysia 5Y CDS	63	0	-6	MSCI Asiax	692	0.84%	4.69%
Philippines 5Y CDS	63	0	-3	HSI	28,401	0.35%	3.07%
Indonesia 5Y CDS	94	0	-10	STI	3,391	1.42%	5.32%
Thailand 5Y CDS	47	0	-5	KLCI	1,745	0.32%	-0.63%
				JCI	6,017	-0.14%	1.96%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
31-Oct-17	FCT MTN Pte Ltd	'BBB+/NR/NR'	SGD70mn	7-year	2.77%
31-Oct-17	CNQC International Holdings Limited	Not Rated	SGD100mn	3-year	5%
31-Oct-17	Huarong Finance 2017	'NR/Baa1/A'	SGD400mn	8-year	3.80%
31-Oct-17	Huarong Finance 2017	'NR/Baa1/A'	USD500mn	5-year	3mL+115bps
31-Oct-17	Huarong Finance 2017	'NR/Baa1/A'	USD1.1bn	10-year	CT10+190bps
31-Oct-17	Huarong Finance 2017	'NR/Baa1/A'	USD700mn	30-year	4.95%
31-Oct-17	Huarong Finance 2017	'NR/Baa1/A-'	USD700mn	Perp NC5	4%
30-Oct-17	FH-REIT Treasury Pte Ltd	'NR/Baa2/NR'	SGD120mn	7-year	3.08%
30-Oct-17	Franshion Brilliant Ltd	BB/NR/NR	USD300mn	Perp NC6	4.875%
30-Oct-17	PT Chandra Asri Petrochemical Tbk	'B+/Ba3/BB-'	USD300mn	7NC4	5.10%

Source: OCBC, Bloomberg

Rating Changes: S&P has downgraded Shanxi Road & Bridge Construction Group Co. Ltd's (SXRB) corporate credit rating to 'BB-' from 'BB'. The outlook is stable. The rating action reflects S&P's view that SXRB has a lower likelihood of receiving extraordinary support from the Shanxi government as the government has bestowed all the toll roads in the province to a to-be-established holding company owned by State-owned Assets Supervision and Administration Commission (SASAC). SXRB's role would be focused on road construction, and S&P believes that SXRB will play a less important role than SASC to the government. S&P has affirmed Mirvac Group's (Mirvac) 'BBB+' long-term corporate credit rating, while revising the outlook to positive from stable. The rating action reflects Mirvac's continued improvement in its investment portfolio, which could materially boost its investment earnings. S&P has downgraded Agricultural Bank of China Ltd's (ABC) 'A' long-term issuer credit rating, while removing the ratings from CreditWatch, where they were placed with negative implications. The outlook is stable. The rating action reflects S&P's view that ABC will maintain its asset risks and credit losses in line with industry average. Moody's has assigned Boral Finance Pty Limited's USD notes, that are guaranteed by Boral Limited (Boral), a senior unsecured rating of 'Baa2'. The outlook is stable. The rating action reflects S&P's expectation that Boral's operating profile and earnings will improve, in line with the recovery in the US housing market and expected increase in infrastructure activities in Australia. Moody's has downgraded Sime Darby Berhad's (Sime Darby) issuer rating to 'Baa3' from 'Baa1'. The outlook is stable. The rating action follows Sime Darby's announcement to create three standalone businesses by listing its plantation and property divisions separately, which would lead to a significant reduction in scale and cash flow, therefore weakening its business profile.

Credit Headlines:

BNP Paribas SA ("BNPP"): BNPP announced its 3Q2017 and 9M2017 results with its fully loaded CET1 capital ratio improving 10 bps from 2Q2017 to 11.8% for 3Q2017. This was due to both a marginal improvement in capital and a 0.6% fall in risk weighted assets. Higher capital was driven by a 6.9% y/y improvement in pre-tax income to EUR3.0bn for 3Q2017 with the key boost to 3Q2017 pre-tax income coming from the initial public offering of SBI Life (which generated a EUR326mn capital gain and is non-recurring in nature). Elsewhere, results were stable to modest, with broadly stable operating income generation of EUR2.6bn comprised of softer revenues (-1.8% y/y) which were mitigated by lower operating expenses (mainly from Corporate and Institutional Banking's (CIB) transformation program) and a lower cost of risk (-1.2% and -12.6% respectively y/y). Revenue performance was impacted by unfavourable FX movements and weaker trading performance in the CIB segment. Domestic retail continues to be challenging due to low interest rates although business volumes (loans up 6.1% y/y) are positive which helped mitigate to an extent. Overall results continue to be impacted by exceptional items although the net impact in 3Q2017 was marginal as high ongoing transformation costs were negated by the previously mentioned capital gain. YTD trends were similar with pre-tax income up 2.7% y/y to EUR9.2bn primarily as a result of non-operating items. Otherwise, 9M2017 operating income was down 1.5% due to soft top line performance (-0.4% y/y) and higher costs (+1.8% y/y) which overshadowed a 16.9% fall in risk costs. Risk cost improvement prevails across most of BNPP's segments with a EUR83mn y/y improvement in cost of risk at CIB-Corporate Banking and Europe-Mediterranean the main contributors. Risk costs in Personal Finance grew by EUR33mn although this was due to the rise in loan outstandings. BNPP's capital ratios continued to improve, with the bank's CET1/CAR ratios at 11.9%/14.7% for 3Q2017 against 11.8%/14.7% for 2Q2017 and 11.6%/14.5% for FY2016. The results do not alter our view of BNPP's Neutral issuer profile. (Company, OCBC)

Credit Headlines:

Sembcorp Industries ("SCI") / Sembcorp Marine ("SMM"): SMM reported 3Q2017 results with revenue declining 64.3% y/y to SGD316.9mn. Revenue was also lower q/q by 51.7%. The biggest driver in the slump in revenue was the revenue reversal on the termination of two rig contracts (specifically the two jack-up rigs ordered by Perisai Petroleum Teknologi Bhd, ("PPT"), which had defaulted on its debts in October 2016). As a result of the revenue reversal, segment revenue from Rigs & Floaters plunged 95.1% to just SGD21.2mn. It should be noted that the contract termination was likely due to the same two rigs being sold subsequently to Borr Drilling Ltd ("BORR") (refer to OCBC Asian Credit Daily - 9 October 2017). As mentioned previously, SMM had sold 9 jackup drilling rigs to BORR, which includes 6 rigs from contracts which SMM had earlier terminated as well as 3 rigs under various stages of construction. We had previously opined that these rigs "resold" include 1 rig originally sold to Marco Polo Marine ("MPM"), 2 rigs originally sold to Perisai Petroleum Teknologi Bhd ("PPT") and 3 rigs originally sold to Oro Negro. The 9 rigs were sold for a total consideration of USD1.3bn plus a market-based fee calculated based on an uplift in value of the rigs sold (delivery over a 14-month period from 4Q2017 till 1Q2019). BORR had already made an upfront down payment of USD500mn, with the balance USD800mn effectively financed by SMM. The sale of the rigs were done at a slight loss of SGD15mn (to be reflected in 4Q2017 results). The Offshore Platforms segment was weak as well, slumping 54.3% y/y to SGD149.1mn, with management indicating fewer projects on hand. The sole bright spark was in Repairs & Upgrades, which reported a 18.1% revenue increase to SGD124.0mn. SMM had highlighted how cruise ship refits (they have done 13 so far in 9M2017) has been supportive of the segment. Looking forward, though orders for non-drilling assets are picking up, and upstream activity seems to be improving, it would seem that for drilling assets things remain challenging. Management had indicated that they have been redeploying and re-training their workforce from drilling to non-drilling work. Capacity continues to be optimized with SMM returning older yard facilities (to the government, sometimes before the lease expiry period). With the Tuas Boulevard Yard Phase II completed in 1Q2017, management has been consolidating cored operations at the new yard. In aggregate, the weaker contribution from floater and offshore platform projects have caused gross profits to decline 82.5% y/y to SGD12.4mn (or a gross margin of just 4%). Net order book (including SGD3.1bn worth of Sete Brasil orders) was reported to be SGD8.0bn, up sharply from the SGD6.7bn reported in 2Q2017. This was largely driven by the BORR transaction, which includes 6 rigs previously sold to other parties and subsequently terminated. In general, we are comforted by the resolution of several rig contracts that were uncertain given client stress, though we note that SMM continues to maintain and extend the standstill agreement (now till 02/01/18) with North Atlantic Drilling (first announced 03/12/15) regarding the West Rigel semi-submersible (original contract value ~USD568mn), even though North Atlantic Drilling had already filed for Chapter 11 bankruptcy protection. Operating profit fell to SGD22.0mn (-33.2% y/y) due to overall weak performance, with SMM generating just SGD1.6mn in net profit (SMM would have made a loss if not for FX gains seen during the quarter). Operating cash flow continued to be negative at –SGD155.2mn due to working capital needs. This, coupled with SGD36.9mn in capex for the quarter (on yards), resulting in ~SGD192mn in negative free cash flow. The cash gap was plugged by the SGD205.7mn received for the divestment of Cosco Shipyard Group. In aggregate, net gearing remained constant q/q at 131%. It should be noted that management has guided that with the USD500mn in cash received from BORR in October, net gearing is expected to improve sharply to 104%. This is consistent with our pro-forma net gearing which we had provided previously. In essence, though SMM's core drilling segment remains challenged, the BORR transaction helped SMM deleverage decisively as well as removed the ambiguity of several uncertain contracts. This would also in turn result in improvements in SCI's credit profile. OCBC currently does not cover SMM, while SCI is held at a Neutral Issuer Profile. (Company, OCBC)

Credit Headlines:

Lippo Malls Indonesia Retail Trust ("LMRT"): LMRT announced that it will be commencing a consent solicitation exercise as it will be changing its trustee. HSBC Institutional Trust Services (Singapore) Ltd will retire as trustee of LMRT ("Retiring Trustee") and Perpetual (Asia) Ltd ("New Trustee") will be appointed as trustee of LMRT with effect from 2 Jan 2018. We understand that the New Trustee has a 10 year track record, and is the trustee of REITs and business trusts including Frasers Hospitality Trust, Viva Industrial Trust and Croesus Retail Trust. The consent solicitation exercise will include noteholders of i) SGD75mn LMRTSP 4.1% '20s ("Series 005"), ii) SGD100mn LMRTSP 4.5% '18s ("Series 001"), iii) SGD140mn LMRTSP 7% PERP ("Series 002") and iv) SGD120mn LMRTSP 6% PERP ("Series 003"). We note that holders of SGD75mn LMRTSP 4.48% '17s are left out, likely because the maturity date of the note falls before the date of change of the trustee. The consent solicitation seeks the approval of the relevant noteholders to i) allow the Retiring Trustee to retire as trustee of the Trust and appoint the New Trustee as trustee of the Trust and ii) amend the provisions of the notes to substitute the Retiring Trustee as guarantor (for Series 001 and Series 005) and Issuer (for Series 002 and Series 003). We note that it is an event of default if the LMRT trustee resigns or is removed as the issuer or guarantor of the notes and the replacement or substitute trustee is not appointed in accordance with the terms of the LMRT trust deed. There will be 15bps earlybird consent fee which expires on 15 Nov 2017 at 5pm. After which, the final consent fee (expiring 27 Nov 2017 at 11am) will be 10bps for noteholders. Short of triggering the event of default, we think that the change in the trustee of LMRT does not impact LMRT's credit profile. As such, we recommend noteholders to consent in order to benefit from the consent fee. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com